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**IRC Limited 鐵江現貨有限公司**  
(Incorporated in Hong Kong with limited liability)  
(Stock code: 1029)

## **2021 ANNUAL RESULTS**

### **EBITDA MORE THAN DOUBLED TO US\$171 MILLION**

### **FIVE-FOLD INCREASE IN UNDERLYING PROFIT TO US\$125 MILLION**

#### **CONFERENCE CALL**

A conference call will be held today at 14h00 Hong Kong time to discuss the annual results. The number is +852 2112 1888 and the passcode is 8449630#. Presentation slides to accompany the call are available at [www.ircgroup.com.hk](http://www.ircgroup.com.hk). A playback of the teleconference will be available from 31 March 2022 at [www.ircgroup.com.hk/en/ir\\_presentations.php](http://www.ircgroup.com.hk/en/ir_presentations.php).

**Wednesday, 30 March 2022:** The Board of Directors of IRC Limited (“IRC” or the “Company”, together with its subsidiaries, the “Group”) is pleased to announce the annual results of the Company for the year ended 31 December 2021.

#### **Financial Highlights**

- Revenue increased by 65.3% to US\$371.3 million (2020: US\$224.6 million)
- EBITDA excluding non-recurring items and FX improved to US\$170.6 million (2020: US\$79.7 million)
- Underlying profit increased five-fold to US\$125.3 million (2020: US\$24.2 million)
- Profit attributable to shareholders amounted to US\$134.1 million (2020: US\$100.6 million)
- Cash balance increased to US\$52.1 million (31 December 2020: US\$20.4 million)
- Net debt reduced to US\$60.5 million (31 December 2020: US\$181.7 million)

#### **Operating Highlights**

- Production volume down by 6.9% to 2,558kt (2020: 2,748kt), mainly due to short-term factors:– underperformance of mining contractors and low ore quality
- Sales volume of 2,554kt is in line with last year (2020: 2,577kt), but could have been improved if not of railway logistics issues due to COVID pandemic and poor weather
- Good safety standard with no fatality; LTIFR maintained at 0.35

**Commenting on the results, Peter Hambro, Chairman of IRC said,** “We hope that you might forgive all of us at IRC for being proud of what we have accomplished in today’s turbulent business environment. Not only have we achieved outstanding financial and operating results, but we have also maintained a sustainable operation while conserving and supporting our employees and communities.

2021 was an extremely good year for IRC in terms of financial results, evidenced by our 114% increase in EBITDA to US\$171 million. Our underlying gains increased five-fold to US\$125 million which equals almost two-thirds of the Company’s current market capitalisation. We have also significantly strengthened our balance sheet with the net debt reduced to US\$61 million. We believe that this success is something that we can continue to replicate in the immediate future and 2022 has started well for IRC with robust iron ore price, stable production rate, and devaluation of Rouble.

In 2022, we will endeavour to achieve three main objectives:– reducing gearing, developing Sutara and, most importantly, rewarding our shareholders with dividends. We shall undergo a capital reduction exercise in the first half of 2022 to offset previous years’ losses, paving the way for the Company to pay dividends. Obviously, we are aware of the conflict between Russia and Ukraine and can feel that the geopolitical tectonic plates are in motion. The Board is taking a cautious approach and will continue to identify and analyse potential risks to IRC’s business. We are appreciative for the support of our Board of Directors, Shareholders and Stakeholders. 2021 was a good year for IRC, but we are confident that the best is yet to come.”

## FINANCIAL REVIEW

The table below shows the results of the Group for the years ended 31 December 2021 and 2020:

	<b>For the year ended 31 December</b>		Variance
	2021	2020	
<b>Key Operating Data</b>			
Iron Ore Concentrate			
— Production volume (tonnes)*	<b>2,557,794</b>	2,747,767	(6.9%)
— Sales volume (tonnes)*	<b>2,553,804</b>	2,576,722	(0.9%)
Achieved Selling Price (US\$/tonne)			
— based on wet metric tonne	<b>145</b>	87	66.7%
— based on dry metric tonne	<b>159</b>	95	67.4%
— based on dry metric tonne before hedging	<b>163</b>	100	63.0%
Platts 65% iron ore average price	<b>186</b>	122	52.5%
Cash Cost (US\$/tonne)*	<b>71.7</b>	51.2	40.0%
<hr/>			
<b>Consolidated Income Statement (US\$'000)</b>			
Revenue before hedging losses	<b>382,072</b>	236,442	61.6%
Hedging losses	<b>(10,793)</b>	(11,851)	(8.9%)
<b>Revenue</b>	<b>371,279</b>	224,591	65.3%
Site operating expenses and service costs before depreciation and amortisation	<b>(192,513)</b>	(139,810)	37.7%
General administration expenses before depreciation and amortisation	<b>(10,273)</b>	(9,217)	11.5%
Other income, gains and losses, and other allowances	<b>2,121</b>	4,132	(48.7%)
<b>EBITDA excluding non-recurring items and foreign exchange</b>	<b>170,614</b>	79,696	114.1%
Depreciation and amortisation	<b>(27,021)</b>	(28,818)	(6.2%)
Financial costs	<b>(18,238)</b>	(25,157)	(27.5%)
Income tax expense & non-controlling interests	<b>(34)</b>	(1,561)	(97.8%)
<b>Underlying gains – excluding non-recurring items and foreign exchange</b>	<b>125,321</b>	24,160	418.7%
Gain on liquidation of Kuranakh project	<b>12,186</b>	–	N/A
Net foreign exchange gains	<b>704</b>	7,674	(90.8%)
Other provisions	<b>(4,142)</b>	(7,115)	(41.8%)
Reversal of impairment losses	<b>–</b>	75,832	(100.0%)
<b>Profit attributable to the owners of the Company</b>	<b>134,069</b>	100,551	33.3%

\* Per wet metric tonne sold

## THE UNDERLYING RESULTS OF THE GROUP

IRC's operating results are mainly derived from the operation of K&S. The Group manages its operations with principal reference to the underlying operating cash flows and recurring earnings. The "EBITDA" and "Underlying results", both of which exclude non-recurring items and foreign exchange, are the key performance indicators for IRC.

### EBITDA – excluding non-recurring items and foreign exchange

The Group's EBITDA, excluding non-recurring items and foreign exchange, increased by 114.1% to US\$170.6 million (31 December 2020: US\$79.7 million) for the year ended 31 December 2021. The significant growth was mainly driven by higher achieved selling price.

Despite the fact that ore quality, mining contractors' performance, and railway logistics issues remained the oft-cited bottlenecks, limiting production and shipping volumes for K&S in 2021, the Company was still able to sell 2,553,804 tonnes of iron ore concentrate which was in line with that of the previous year (31 December 2020: 2,576,722 tonnes). IRC's 2021 achieved selling price after hedging was US\$159 per dry metric tonne, up 67.4%, mainly supported by the strong iron ore price.

K&S endeavours to keep operating and administrative costs under strict control. During the reporting period, the Group's operating expenses and general administration costs increased by 36.1% which is significantly lower than the 65.3% growth in revenue. Cash cost per tonne increased to US\$71.7, mainly driven by:

- Higher transportation costs, due to the increased share of sales via the seaborne route, which results in higher handling and sea freight costs; and
- Higher mining costs due to
  - o Increased stripping ratio (how much waste is mined per unit of ore); and
  - o Increased third-party mining contractors' fees.

It is worth noting that the achieved selling prices of seaborne sales are generally higher than those via the railway route, offsetting part of the higher transportation costs. Venturing into the seaborne market not only allows K&S to mitigate the impact of the railway congestion but also broaden its customer base.

Stable productivity in a strong iron ore price environment, along with a weak Rouble and prudent cost control in the face of rising mining expenses, transportation charges, and general inflation in Russia, resulted in a substantial increase in EBITDA of 114.1%.

US\$'000	For the year ended 31 December		Variance
	2021	2020	
EBITDA excluding non-recurring items and foreign exchange	<u>170,614</u>	<u>79,696</u>	<u>114.1%</u>

## Underlying gains – excluding non-recurring items and foreign exchange

The Group's income statement sometimes includes certain material non-recurring and non-operating items which should be considered separately:

- IRC recognised a non-cash gain from the close down of the Kuranakh project amounting to US\$12.2 million (31 December 2020: Nil) arising from the deconsolidation of a subsidiary on liquidation;
- a non-cash foreign exchange gain of US\$0.7 million was recorded in 2021 (31 December 2020: US\$7.7 million), mainly due to exchange rate movements in Russian Rouble;
- a non-cash provision of US\$4.1 million (31 December 2020: US\$7.1 million) was made for expenses relating to deferred contract payments. The Group initiated legal proceedings against the said contract counter-party and IRC believes that these expenses will not be payable. However, being prudent and to comply with the accounting requirements, this provision has been made.
- in 2020, a reversal of assets impairment in relation to the K&S mine of US\$75.8 million was made. No such impairment reversal was booked in 2021.

The underlying gains, being a good indicator of IRC's true performance, increased five-fold from the last year to US\$125.3 million, demonstrating the Company's outstanding progress in 2021:

US\$'000	For the year ended 31 December		Variance
	2021	2020	
Underlying gains – excluding non-recurring items and foreign exchange	<u>125,321</u>	<u>24,160</u>	<u>418.7%</u>

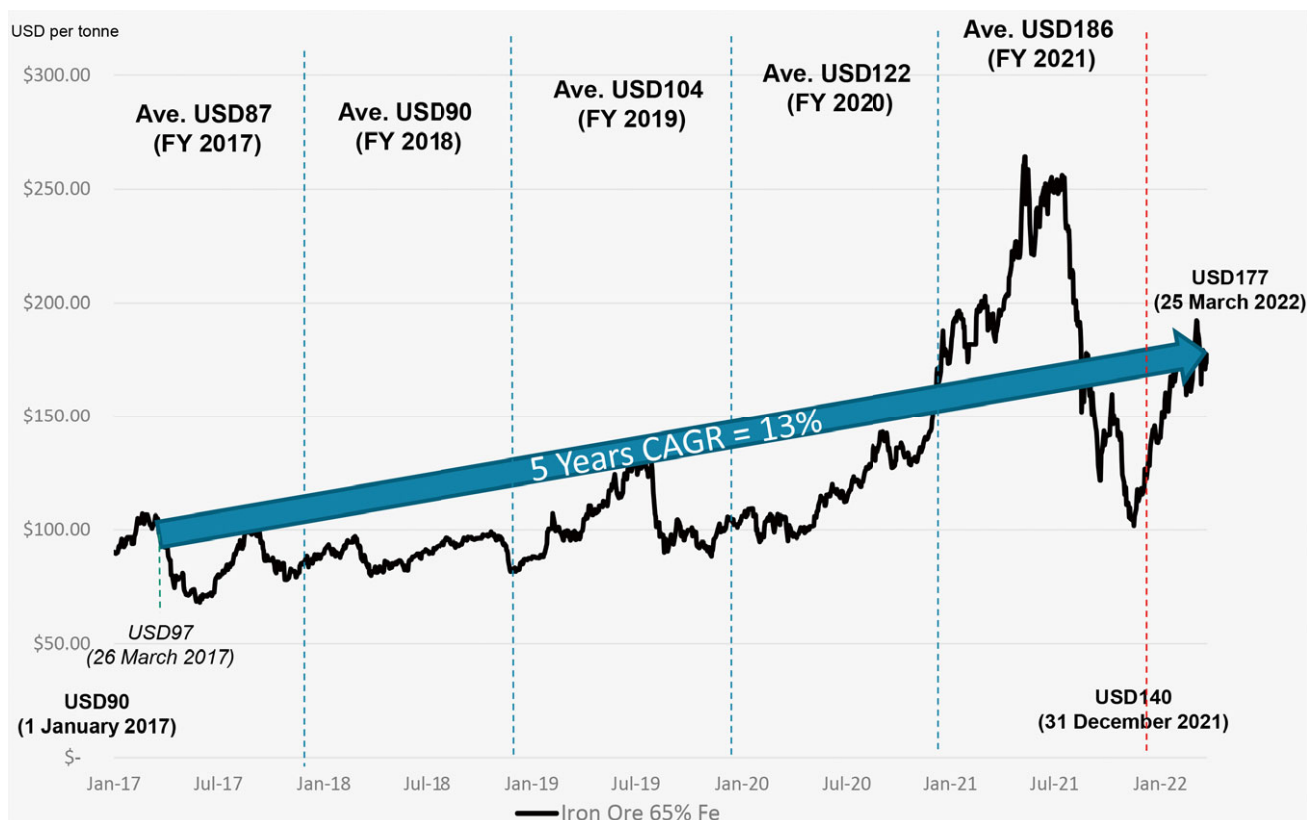
## REVENUE

### Iron ore concentrate

IRC's main revenue source comes from the sales of 65% iron ore concentrate produced at the K&S mine. Owing to underperformance of third-party mining contractors, poorer ore quality at Kimkan West deposit which K&S started mining in 2021, and substantial inventories of finished goods accumulated due to temporary shipment constraints in December, K&S's iron ore production in 2021 was lower than 2020 at 2,557,794 tonnes, or c.81% of its capacity. Despite short-term border closures between Russia and China due to adverse weather and anti-pandemic measures imposed by China, K&S sold 2,553,804 tonnes of iron ore concentrate in 2021 which was comparable with that of the previous year.

The selling price of K&S's iron ore concentrate is determined with reference to the international spot price of Platts iron ore benchmark index. Iron ore prices were exceptionally volatile in 2021, mainly attributable to fluctuating demand for iron ore in China, with the Platts 65% iron ore index attaining a 52-week high of around US\$260 per tonne in May 2021 and softening to a low of about US\$102 per tonne in the last quarter of the year. In 2021, average index value was US\$186 per tonne, up roughly 52.5% from 2020.

The chart below shows the movements of Platts 65% Fe index from 2017:



Source: Platts (as of 25 March 2022)

Although K&S is strategically located at the doorstep of its Chinese market, most of the major Chinese steel mills nearby are owned or controlled by the same corporate organisation. This means that in the north-eastern part of China, IRC is operating in a semi-captive market, where low transportation costs play an important positive role on the delivered cost of its product but its bargaining power in price negotiations is negatively affected. This means that IRC's Chinese customers expect a discount to the benchmark Platts price and IRC have relatively little power to resist these monopolistic requests. IRC understands that this has been the case for other Russian producers as well, with discounts being commonly offered to customers in the region. For this reason, sales have also been made by K&S to customers in Russia, but this market is not without its challenges in light of the market competition from other local producers. As the purchase prices offered by the Russian customers of K&S were not attractive, minimal shipments were made to Russia in 2021 in favour of diverting more sales to Chinese seaborne market, which offered better sales terms. K&S is also exploring the west-bound transportation route to China with trial shipments going via the Zaibalkalsk/Manzhouli border crossing. K&S will continue monitoring the situation and adjusting its sales and marketing strategy accordingly.

In 2021, the achieved selling price of K&S's iron ore concentrate before hedging was US\$163 per dry metric tonne (31 December 2020: US\$100), an increase of 63.0% over previous year.

Iron ore hedging is used to manage the downside risks associated with iron ore price movements and is not speculative in nature. As market iron ore price had been growing during the reporting period, hedging results were negative. Hedging reduced IRC's revenue by US\$10.8 million (31 December 2020: US\$11.9 million) during the reporting period. The net revenue for the year 2021, after taking into account the effect of iron ore hedging, was US\$371.3 million, a 65.3% increase over the same period last year.

The hedging in 2021 had been done mostly by zero-cost collars using options on the 62% iron ore index, with Puts' strike at about US\$100 per tonne and Calls' strike at about US\$175 per tonne. A small part of the hedging was performed by buying Put options of 62% iron ore index at US\$100 per tonne. For the first quarter of 2022, about 20% of K&S's expected production has been hedged with Put options of 62% iron ore index at about US\$110 per tonne. It should be noted the hedging is not speculative in nature and is for risk management purposes.

## Engineering Services

Revenue from Giproruda, the Group's small-scale engineering services division, was not material but diversified the Group's revenue. Revenue from the segment was US\$216,000 in the year (31 December 2020: US\$209,000).

## SITE OPERATING EXPENSES AND SERVICE COSTS BEFORE DEPRECIATION AND AMORTISATION

The mining and operating expenses incurred by the Group's sole operating mine, the K&S project, in relation to sales of iron ore concentrate are primarily reflected in site operating expenses and service costs.

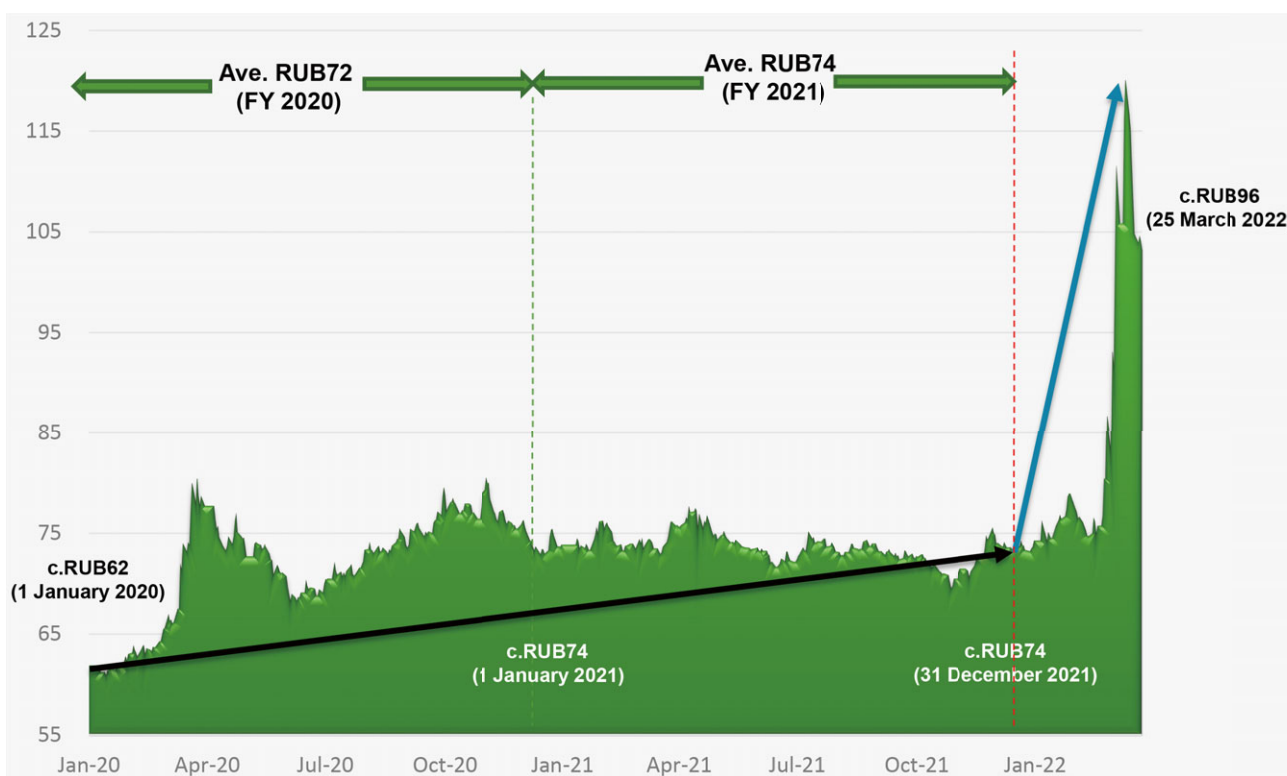
The table below illustrates the details of the key cash cost components per wet metric tonne of iron ore concentrate sold:

	For the year ended	
	31 December	
	2021	2020
	Cash cost	Cash cost
	per tonne	per tonne
	US\$/t	US\$/t
Mining	21.5	17.1
Processing and drying	12.1	10.8
Production overheads, site administration and related costs	11.4	10.0
Transportation to customers	23.8	15.2
Mineral Extraction Tax	2.1	0.2
Movements in inventories and finished goods	0.9	(1.8)
Currency hedge results	(0.1)	(0.3)
	<u>71.7</u>	<u>51.2</u>
Net cash cost		

The unit cash cost per wet metric tonne of concentrate sold in 2021 was US\$71.7, up 40.0% from the previous year. Transportation costs increased as a result of the increased share of sales in the seaborne market and higher railway tariffs and wagons use fees. Despite higher transportation cost of the sales via the seaborne route, realised price is also higher when compared to sales by rail to the customers in the North-Eastern China. Another component of the increase in unit cash cost was the cost of mining, which was driven up by the increased strip ratio due to the start of works at Kimkan West deposit and higher costs for third-party mining contractors. Once the mining works at Sutara has ramped up and the pit becomes fully operational, it is expected that better ore quality will result in a higher yield of the concentrate from ore, and hence a higher production capacity of the processing plant. The increase in the government's Mineral Extraction Tax, Russia's high inflation rate of 6.7%, together with higher energy costs all contributed to overall cost increases.

The Russian Rouble did not depreciate sharply as it did in 2020 but it remained weak during 2021 with an average exchange rate of around RUB74 per US Dollar. While the Group's revenues are mainly denominated in US dollars and therefore unaffected by Rouble weakness, the Group's operating costs, which are mostly denominated in Roubles, would be reduced in US dollar terms as Rouble depreciates. It is worth noting that the Russian Rouble has depreciated significantly to above RUB100 per US Dollar in February 2022 as a result of the geopolitical situation.

The chart below shows the depreciation of the Rouble since January 2020:



Source: Bank of Russia (as of 25 March 2022)

## GENERAL ADMINISTRATION EXPENSES BEFORE DEPRECIATION AND AMORTISATION

General administration expenses before depreciation and amortisation increased by US\$1.1 million when compared to the same period last year. The increase is mainly attributable to the timing of the expenses, as certain administrative activities and related expenditures were deferred last year due to COVID-19, and the payment of discretionary remunerations.

## OTHER INCOME, GAINS AND LOSSES, AND OTHER ALLOWANCES

Other income, gains and losses, and other allowances were mainly the rental income derived from the sub-letting part of the floor space of buildings owned by the Group and sub-leased machineries and wagons, net of the cost of acquiring put options for iron ore hedging purposes.

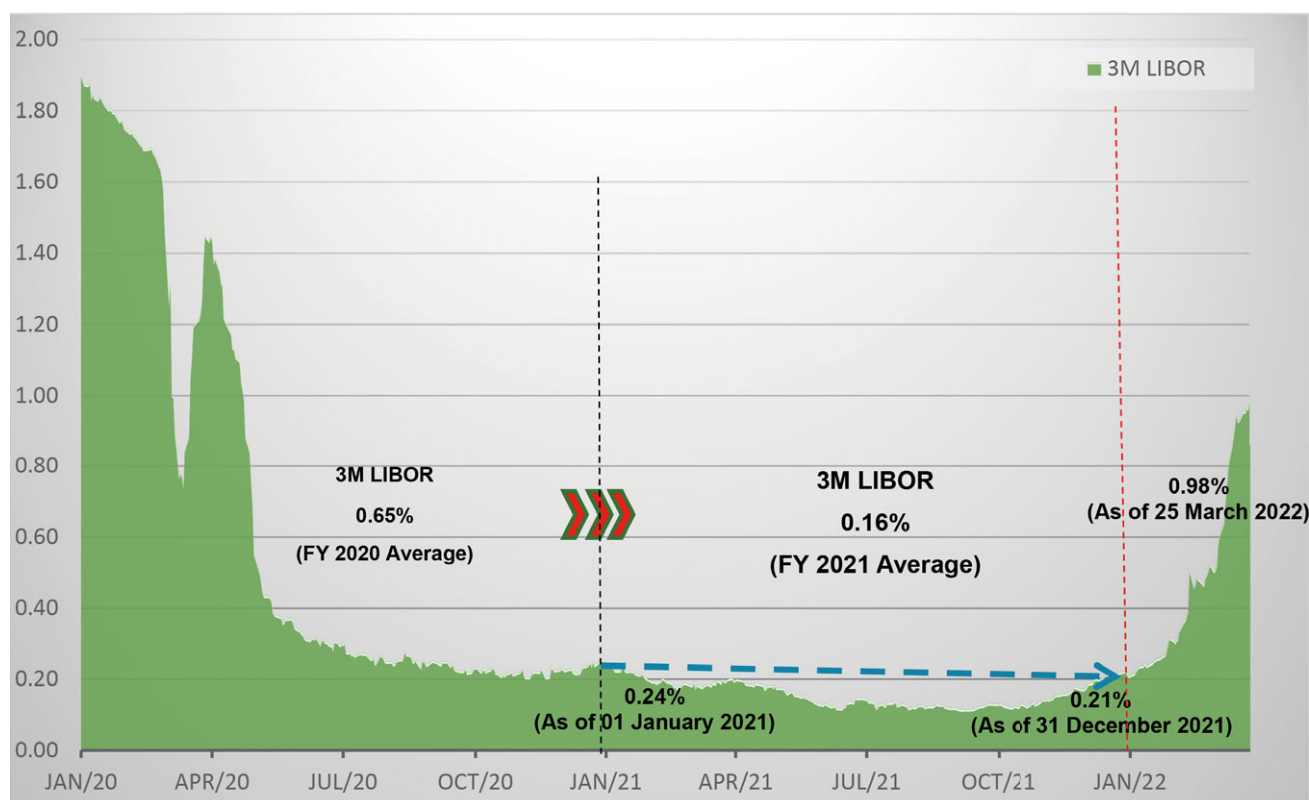
## DEPRECIATION AND AMORTISATION

Depreciation and amortisation charges of US\$27.0 million in 2021 was 6.2% lower than last year (31 December 2020: US\$28.8 million), mainly due to changes in accounting estimates and some assets having been fully depreciated.

## FINANCIAL COSTS

Financial costs reflect primarily the interest expenses on loans from Gazprombank and guarantee fee accrued for Petropavlovsk PLC. Financial costs reduced by 27.5% to US\$18.2 million in 2021, primarily due to reduction on market interest rates, as well as the lower outstanding balances of the Gazprombank loan after loan repayment of US\$91 million in 2021, of which US\$70 million was voluntary early principal repayments.

The chart below shows the decreasing LIBOR since 2020:



Source: Bloomberg (as of 25 March 2022)



## **INCOME TAX EXPENSE AND NON-CONTROLLING INTERESTS**

The income tax expense and non-controlling interests of US\$0.034 million (31 December 2020: US\$1.6 million) mainly reflects income tax charges offset by deferred tax movements.

## **GAIN ON LIQUIDATION OF KURANAKH PROJECT**

Gain on liquidation of Kuranakh project, a non-operating and non-recurring non-cash item, amounted to US\$12.2 million. This is related to the deconsolidation of the project from the Group's financial statements following the sale of Kuranakh assets by the administrators. The gain is mostly related to the write-back of provisions for restoration costs, foreign exchanges and other payables.

## **NET FOREIGN EXCHANGE GAINS**

The foreign exchange gains of US\$0.7 million in 2021 was mainly attributable to the movements in exchange rate of Russian Rouble.

## **PROFIT ATTRIBUTABLE TO THE OWNERS OF THE COMPANY**

Improving EBITDA has resulted in positive operating results for the Group. The Group reported a profit of US\$134.1 million in 2021 (31 December 2020: US\$100.6 million) after accounting for the gain on liquidation of Kuranakh project of US\$12.2 million, net foreign exchange gains of US\$0.7 million, and lower finance costs.

## **SEGMENT INFORMATION**

The mines in production segment represents the K&S mine's production and sales. This segment made a profit of US\$152.8 million for the year, after taking into account the depreciation and amortisation costs. Mines in development, engineering and other segments were not material to the total revenue, and the reporting period saw a total loss of US\$0.9 million.

## CASH FLOW STATEMENT

The following table summarises the key cash flow items of the Group for the years ended 31 December 2021 and 31 December 2020:

US\$'000	For the year ended 31 December	
	2021	2020
<b>Net cash generated from operations</b>	<b>166,327</b>	62,871
Repayment of borrowings	(90,681)	(20,658)
Loan guarantee fees paid	(14,311)	(5,000)
Capital expenditure	(13,204)	(5,812)
Interest expenses paid	(11,245)	(15,978)
Repayment of lease liabilities	(3,887)	(3,832)
Income tax paid, interest received and other adjustments, net	(1,241)	465
Proceeds on disposal of property, plant and equipment	–	4,023
<b>Net movement during the year</b>	<b>31,758</b>	16,079
<b>Cash and bank balances (including time deposits)</b>		
– At 1 January	<b>20,371</b>	4,292
– At 31 December	<b>52,129</b>	20,371

For the year ended 31 December 2021, net cash generated from operations was US\$166.3 million, up from US\$62.9 million from the prior year and representing an increase of 1.6 times. The significant growth in revenue from the K&S mine gave rise to stronger cash flow generated from operating activities. The receivable balance increased along with an increase in prepayments to suppliers and recoverable amount on value-added tax. With lower financing costs and loan balances, interest payments decreased from US\$16.0 million to US\$11.2 million. The capital expenditure of US\$13.2 million was incurred mainly by the K&S mine for the development of the Sutara project and maintenance of the K&S mine. During the year of 2021, the Group made principal repayments to Gazprombank totalling US\$90.7 million, including a voluntary principal loan repayment of US\$70.0 million, and settled guarantee fees with Petropavlovsk PLC of US\$14.3 million.

## LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

### Share capital

During the year of 2021, the Company issued 1,328,000 and 5,000,000 new shares following the exercising of share options pursuant to the Company's employees' share option schemes with an exercise price of HK\$0.2960 and HK\$0.2728 per share respectively. The Company received approximately US\$0.2 million following the issuance of the shares.

### Cash Position and Capital Expenditure

As at 31 December 2021, the carrying amount of the Group's cash, deposits and bank balances amounted to approximately US\$52.1 million (31 December 2020: US\$20.4 million). The cash balance increased significantly in 2021 as a result of the Group's improved profitability for the year.

### Exploration, Development and Mining Production Activities

For the year ended 31 December 2021, US\$205.7 million (31 December 2020: US\$145.6 million) was incurred on development and mining production activities. No material exploration activity was carried out in 2021 and 2020. The following table details the operating and capital expenditures in 2021 and 2020:

US\$'m	For the year ended 31 December					
	Operating expenses	2021 Capital expenditure	Total	Operating expenses	2020 Capital expenditure	Total
K&S development	191.5	13.0	204.5	137.6	5.6	143.2
Exploration projects and others	1.0	0.2	1.2	2.2	0.2	2.4
	<b>192.5</b>	<b>13.2</b>	<b>205.7</b>	<b>139.8</b>	<b>5.8</b>	<b>145.6</b>

The table below sets out the details of material new contracts and commitments entered into throughout 2021 on a by-project basis. The amount was increased to US\$8.1 million, mainly attributable to the development of the Sutara project and the hiring of an additional mining contractor during the period.

US\$'m	Nature	For the year ended 31 December	
		2021	2020
K&S	Purchase of property, plant and equipment	0.9	0.1
	Sub-contracting for mining works	7.2	0.1
	Sub-contracting for railway and related works	–	1.0
Others	Other contracts and commitments	–	1.2
		<b>8.1</b>	<b>2.4</b>

## **Borrowings and Charges**

As at 31 December 2021, the Group had gross borrowings of US\$113.2 million (31 December 2020: US\$203.9 million), representing the long-term borrowing drawn from the Gazprombank loan facility guaranteed by Petropavlovsk PLC. On 3 December 2021, Petropavlovsk PLC announced disposal of its 31.1% of the entire issued share capital of the Company resulted in the irrevocable release of Petropavlovsk PLC from all loan guarantees given to Gazprombank. The interest of the Gazprombank facility is determined with reference to LIBOR. The three-month LIBOR fell from an average of 0.65% in 2020 to 0.16% in 2021. Lower LIBOR allowed the Group to reduce its financing cost. During the year, K&S made loan repayments of approximately US\$91 million to Gazprombank, lowering the Group's weighted average interest rate to 7.0% (31 December 2020: 7.6%).

## **Risk of Exchange Rate Fluctuation**

The Group undertakes certain transactions denominated in foreign currencies, principally Russian Rouble, and is therefore exposed to exchange rate risk associated with fluctuations in relative values of US Dollars. Exchange rate risks are mitigated to the extent considered necessary by the Board of Directors, primarily by holding the relevant currencies. The Group hedged about 10% of the Group's 2021 expected Rouble expenditure using zero-cost collars with puts' strike varying in the mid-70s and calls' strike in the mid-90s, to provide protection against the appreciation of currency. For the first half of 2022, the Group has hedged about 10% of the Group's expected Rouble expenditure using zero-cost collars with Puts' strike varying in the low-70s and Calls' strike in the high-70s. Additionally, another 10% of the Group's expected Rouble expenditure for the period from February 2022 to January 2023 inclusive were hedged using zero-cost collars with Puts' strike in the mid-70s and Calls' strike in the mid-90s.

If deemed appropriate, the Group may consider entering into further foreign exchange hedging contracts. The hedging is not of a speculative nature and is for purposes of risk management.

## **Employees and Emolument Policies**

As of 31 December 2021, the Group employed approximately 1,696 people (31 December 2020: 1,665 people). Total staff costs amounted to US\$28.3 million during the reporting period (31 December 2020: US\$26.6 million). The emolument policy of the Group is set up by the Remuneration Committee and the remuneration is determined on the basis of the merits, qualifications and competence of the employees with regard to market conditions and trends.

## **CHAIRMAN AND CEO REPORT**

Dear Shareholders and Stakeholders,

We hope that you might forgive all of us at IRC for being proud of what we have accomplished in today's turbulent business environment. Not only have we achieved outstanding financial and operating results, but we have also maintained a sustainable operation while conserving and supporting our employees and communities. In so doing, we have demonstrated our ability promptly and effectively to respond to adversities and in achieving this, and we must give thanks for the efforts of our battle-hardened workforce and the management systems that have enabled us to achieve the goals, that we have set ourselves in the past.

We believe that this success is something that we can continue to replicate in the immediate future and 2022 has started well for IRC.

### **Outstanding Financial Results in 2021**

2021 was an extremely good year for IRC in terms of financial results, evidenced by our 114% increase in EBITDA to US\$171 million. We managed to produce and sell 2.6 million tonnes of high-grade iron ore concentrate amid a number of short-term challenges.

Our underlying gains increased five-fold to US\$125 million which is almost two-thirds of the Company's current market capitalisation. We acknowledge that these superior numbers were mostly driven by the exceptional price environment of iron ore in the year and a weak exchange value for our operation subsidiary's costs, but at the same time believe that our ability to operate effectively in the face of a variety of adversities was also a critical factor.

The improvement in our profitability translated to positive cash flows, allowing IRC to reduce the Gazprombank loan by US\$91 million, of which US\$70 million was voluntary early principal repayments. We have significantly strengthened our balance sheet with the net debt reduced from US\$182 million at the previous year end to US\$61 million at the 2021 year-end.

### **Strong momentum into 2022 and beyond**

IRC achieved excellent financial results in 2021 and we are carrying the strong momentum into 2022 and beyond. Our performance is subject to three main drivers:– iron ore price, production capacity, and Russian Rouble exchange rate, and these parameters continue to work in our favour.

*Robust Iron Ore Price* – As previously stated, the cornerstone to IRC's success in 2021 was mostly attributable to the outstanding iron ore prices with the 2021 average price of Platts 65% iron ore climbed by about 53% year-on-year to US\$186 per tonne. However, price volatility was also exceptional. During the year, the strong iron ore demand from China and an increase in COVID-19 infections in Brazil pushed the Platts 65% iron ore price index to a new high of about US\$260 per tonne in May 2021. But in the second half of the year, as China tightened production curbs at its steel mills to meet its climate change targets, the index plummeted to its yearly low of US\$102 per tonne in November before seeing some recovery by the end of 2021.

The Beijing Winter Olympics were a catalyst for the rebound of the iron ore price. Following the conclusion of the Winter Olympics in February 2022, Chinese steelmakers gradually resumed steel production after almost six months of production curbs. In addition to the widespread market expected boost in China's infrastructure spending to achieve the "economic stability" aim outlined by the Chinese Premier, the external factors such as Western Australia's cyclone season and ongoing conflict in Ukraine also contributed to tighter iron ore supplies to China. Both domestic and external backdrops of China look constructive for the iron ore market. Since the beginning of 2022, the Platts 65% iron ore index has gained by over 20% to the current level of about US\$170 per tonne, giving K&S a good start to the year.

The icing on IRC's cake is the price premium of the high-grade iron ore. For pollution-control reasons, the quality of iron ore has become one of the most important factors for Chinese steel mills, resulting in ongoing strong demand for premium product. The price spread between 65% and 62% iron ore keeps widening in early 2022 with the average premium climbing to US\$28 per tonne. Mining operators producing high-grade iron ore, like IRC, are well placed to capitalise on this business opportunity.

*Increasing production volume* – Operating a sizeable mine like K&S is not all plain sailing, and our experience in 2021 was no exception. Ore quality, mining volume lag, and railway logistics issues remained the oft-cited production bottlenecks, but we are pleased to be able to report that, as usual, measures have been taken to mitigate their impacts to the extent possible.

K&S comprises of two separate pit sites: – "Kimkan" and "Sutara" and so far, mining has been solely carried out at Kimkan and its resources are gradually being depleted. As Kimkan slowly comes to the end of its mine life, the Sutara pit is scheduled to go online by the end of 2022 or early 2023. Ore in Sutara is expected to have higher iron magnetic properties to support higher levels of production.

Mining at K&S is performed by external contractors but their performance has fallen short of our expectations. To increase mining efficiency at K&S, we are pushing the existing contractors to increase their work rate, searching for new contractors and considering setting up our own mining fleet as soon as practicable to catch up the mining volume lag.

Towards the end of 2021, K&S experienced railway congestion issues which affected both sales and production capacity. While the impact has been mitigated by exploring the seaborne market, the long-term solution lies with the Amur River Bridge. Key infrastructure works of the Bridge have been completed with traffic expected to begin in mid-2022. Apart from alleviating the railway congestion, both K&S and its Chinese customers will benefit from the Bridge with reduced transportation distance and shipment time.

The aforesaid bottlenecks are short-term challenges and are expected to gradually subside in 2022 and going forward, allowing K&S to ramp up its production volume.

*Devaluation of Russian Rouble* – Cost control has always been an important element in improving profitability. While K&S is making more seaborne sales, the transportation costs also increase accordingly. Besides, with surging mining cost, higher mineral extraction tax, and the general inflation in Russia, controlling production costs is becoming increasingly challenging. Fortunately, the weak Rouble helps our course to reduce operating costs.

One of the key positive factors to IRC have been the Russian Rouble depreciation. Rouble was weak in 2021 with an average exchange rate of RUB74 to the US Dollar. Following the recent geopolitical situation, the currency has further devalued by about 30% and is currently trading at about RUB100 to the US Dollar. As our operating costs are primarily denominated in Russian Rouble while our revenue is in US Dollar, the weaker Rouble will have a significant positive impact on our operating margin in 2022.

### **Safe Work Environment**

Our people are the key differentiator in our business, the basic ingredient of our success, and the driving force behind everything we do. Creating a harm-free work environment has always been our top priority and we are pleased to report that we achieved our target of zero fatalities in 2021. We also maintained the LTIFR of K&S mine, a key indicator of the effectiveness of our safety management system, at a low level of 0.35. Safety is at the forefront of our thoughts and we strive to eliminate all work-related injuries.

The emergence of COVID-19 has had an impact on our way of living over these years. To combat the spread of the virus, K&S has setup an emergency response office. Our employees are not only being tested frequently for infection but are also encouraged to be vaccinated. We will make every effort to implement the necessary measures to support the prevention of COVID-19 at our operations. From our pits to our headquarter, safety is ingrained in everything we do.

### **Outlook and Conclusion**

In 2022, we will endeavour to achieve three main objectives:– reducing gearing, developing Sutara and, most importantly, rewarding our shareholders with dividends. We shall undergo a capital reduction exercise in the first half of 2022 to offset previous years' losses, paving the way for the Company to pay dividends. We hope that the operating environment will remain stable, allowing IRC to pay its maiden dividend soonest.

Obviously, we are aware of the conflict between Russia and Ukraine and can feel that the geopolitical tectonic plates are in motion. Based on our analysis, so far, K&S has not been subject to any material direct legal sanctions implications. The Board is taking a cautious approach and will continue to identify and analyse potential risks to IRC's business.

Talent management is one of the key pillars for the continuous growth of IRC and we are pleased by Danila Kotlyarov's redesignation as an Executive Director to bolster our human capital. With his wealth of experience in mining and knowledge in Russia, he will be a welcome addition to our management team. We would also like to take this opportunity to express our gratitude to each and every member of the IRC family for their ongoing dedication and commitment to pursuing higher standards. We are appreciative for the support of our Board of Directors, Shareholders and Stakeholders. 2021 was a good year for IRC, but we are confident that the best is yet to come.

**Peter Hambro**  
*Chairman*

**Yury Makarov**  
*Chief Executive Officer*

The board of directors of IRC Limited (the “Board”) is pleased to announce the audited results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2021, which have been reviewed by the Company’s Audit Committee, comprising of independent non-executive directors, and by the external auditor. The Board has authorised the Executive Committee, which comprises of the Executive Directors and senior management of the Company, to approve the annual results on its behalf.

## **2021 CONSOLIDATED FINANCIAL STATEMENTS**

### **CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

*FOR THE YEAR ENDED 31 DECEMBER 2021*

	<i>NOTES</i>	<b>2021</b> <i>US\$’000</i>	2020 <i>US\$’000</i>
Revenue	4	<b>371,279</b>	224,591
Operating expenses, excluding depreciation and amortisation	6	<b>(202,786)</b>	(149,027)
Depreciation and amortisation	6	<b>(27,021)</b>	(28,818)
Reversal of impairment losses	7	–	75,832
Other income, gains and losses		<b>10,874</b>	5,149
Allowance for financial assets measured at amortised costs		<b>(5)</b>	(458)
Financial costs	8	<b>(18,238)</b>	(25,157)
Profit before taxation		<b>134,103</b>	102,112
Income tax expense	9	<b>(52)</b>	(1,602)
Profit for the year		<b>134,051</b>	100,510
Profit (loss) for the year attributable to:			
Owners of the Company		<b>134,069</b>	100,551
Non-controlling interests		<b>(18)</b>	(41)
		<b>134,051</b>	100,510
Earnings per share (US cents)			
Basic	11	<b>1.89</b>	1.42
Diluted		<b>1.89</b>	1.42



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AT 31 DECEMBER 2021**

	<i>NOTES</i>	<b>2021</b> <b>US\$'000</b>	2020 <i>US\$'000</i>
<b>NON-CURRENT ASSET</b>			
Exploration and evaluation assets		<b>20,426</b>	20,165
Property, plant and equipment		<b>551,907</b>	566,016
Right-of-use assets		<b>3,458</b>	7,025
Interest in a joint venture		–	–
Inventories		<b>11,389</b>	14,470
Other non-current assets		–	11
		<u><b>587,180</b></u>	<u>607,687</u>
<b>CURRENT ASSETS</b>			
Inventories		<b>43,876</b>	30,130
Trade and other receivables	<i>12</i>	<b>25,961</b>	22,924
Other financial assets		–	9
Time deposits		<b>586</b>	–
Bank balances		<b>51,543</b>	20,371
		<u><b>121,966</b></u>	<u>73,434</u>
<b>TOTAL ASSETS</b>		<u><b>709,146</b></u>	<u>681,121</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	<i>13</i>	<b>(67,193)</b>	(72,977)
Lease liabilities		<b>(3,684)</b>	(3,528)
Income tax payable		<b>(250)</b>	(1,393)
Borrowings – due within one year	<i>14</i>	<b>(19,916)</b>	(20,082)
		<u><b>(91,043)</b></u>	<u>(97,980)</u>
<b>NET CURRENT ASSETS (LIABILITIES)</b>		<u><b>30,923</b></u>	<u>(24,546)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u><b>618,103</b></u>	<u>583,141</u>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		<b>(2,291)</b>	(2,609)
Provision for close down and restoration costs		<b>(6,745)</b>	(12,554)
Lease liabilities		–	(3,694)
Borrowings – due more than one year	<i>14</i>	<b>(92,688)</b>	(181,998)
		<u><b>(101,724)</b></u>	<u>(200,855)</u>
<b>TOTAL LIABILITIES</b>		<u><b>(192,767)</b></u>	<u>(298,835)</u>
<b>NET ASSETS</b>		<u><b>516,379</b></u>	<u>382,286</u>

	<i>NOTE</i>	<b>2021</b> <i>US\$'000</i>	2020 <i>US\$'000</i>
<b>CAPITAL AND RESERVES</b>			
Share capital	<i>15</i>	<b>1,285,482</b>	1,285,158
Capital reserve		<b>17,984</b>	17,984
Reserves		<b>17,960</b>	18,235
Accumulated losses		<b>(804,601)</b>	(938,670)
		<hr/>	<hr/>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>		<b>516,825</b>	382,707
<b>NON-CONTROLLING INTERESTS</b>		<b>(446)</b>	(421)
		<hr/>	<hr/>
<b>TOTAL EQUITY</b>		<b>516,379</b>	382,286
		<hr/>	<hr/>

# **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

## **FOR THE YEAR ENDED 31 DECEMBER 2021**

### **1. GENERAL INFORMATION**

IRC Limited (“the Company”) is a public limited company incorporated in Hong Kong and its shares have been listed on the Main Board of the Hong Kong Stock Exchange (the “Stock Exchange”) since 21 October 2010. The Company together with its subsidiaries are hereinafter referred to as the “Group”.

The address of the registered office and principal place of business of the Company is 6H, 9 Queen’s Road Central, Hong Kong. The consolidated financial statements are presented in United States Dollars (“US\$”), which is also the functional currency of the Company.

The principal activity of the Company is investment holding. The Group is principally engaged in the production and development of industrial commodities products including iron ore concentrate that are used in industry across the world. The main activities of the Group are carried out in Russia and the Group predominantly serves the Russian and Chinese markets.

### **2 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Listing Rules”) and by the Hong Kong Companies Ordinance.

The financial information relating to the years ended 31 December 2021 and 2020 included in this preliminary announcement of annual results 2021 do not constitute the Company’s statutory annual consolidated financial statements for those years but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

- The Company has delivered the financial statements for the year ended 31 December 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2021 in due course.
- The Company’s auditor has reported on the consolidated financial statements of the Group for both years. The auditor’s report for the year ended 31 December 2021 was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

### 3. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS

#### Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendments to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee (the “Committee”) of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as “estimated costs necessary to make the sale” when determining the net realisable value of inventories.

Except as described below, the application of the amendments to HKFRSs in the current year had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

#### *Impacts on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform – Phase 2*

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying HKFRS 7 *Financial Instruments: Disclosures* (“HKFRS 7”).

As at 1 January 2021, the Group has financial liabilities, the interest of which are indexed to benchmark rates that will or may be subject to interest rate benchmark reform.

The following table shows the total amounts of outstanding contracts. The amounts of financial liabilities are shown at their carrying amounts.

	<b>United States dollar London Interbank Offered Rate US\$’000</b>
<b>Financial liabilities</b>	
Secured borrowings	112,604

The amendments have had no impact on the consolidated financial statements as none of the relevant contracts has been transitioned to the relevant replacement rates during the year. The Group will apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for secured borrowings measured at amortized cost.

#### 4. REVENUE

##### Disaggregation of revenue from contracts with customers

*For the year ended 31 December 2021*

Segments	Mines in production US\$'000	Engineering US\$'000	Total US\$'000
<b>Types of goods or services</b>			
Sale of iron ore concentrate	369,173	–	369,173
Delivery services	1,890	–	1,890
Engineering services	–	216	216
	<u>371,063</u>	<u>216</u>	<u>371,279</u>
<b>Geographical markets</b>			
People's Republic of China ("PRC")	356,003	–	356,003
Russia	15,060	216	15,276
	<u>371,063</u>	<u>216</u>	<u>371,279</u>
<b>Timing of revenue recognition</b>			
A point of time	369,173	–	369,173
Over time	1,890	216	2,106
	<u>371,063</u>	<u>216</u>	<u>371,279</u>

*For the year ended 31 December 2020*

Segments	Mines in production US\$'000	Engineering US\$'000	Total US\$'000
<b>Types of goods or services</b>			
Sale of iron ore concentrate	216,666	–	216,666
Delivery services	7,716	–	7,716
Engineering services	–	209	209
	<u>224,382</u>	<u>209</u>	<u>224,591</u>
<b>Geographical markets</b>			
People's Republic of China ("PRC")	196,932	–	196,932
Russia	27,450	209	27,659
	<u>224,382</u>	<u>209</u>	<u>224,591</u>
<b>Timing of revenue recognition</b>			
A point of time	216,666	–	216,666
Over time	7,716	209	7,925
	<u>224,382</u>	<u>209</u>	<u>224,591</u>

## 5. SEGMENT INFORMATION

HKFRS 8 *Operating Segments* requires the Group to disclose reportable segments in accordance with internal reports that are provided to the Group's chief operating decision maker. The Group considers its Executive Committee to be the chief operating decision maker. For management purposes, the Group is organised into four operating segments: Mines in Production, Mines in Development, Engineering and Other. These operating segments form the basis on which the Group's Executive Committee makes decisions about resource allocation and performance assessment. No operating segments identified by the Group's Executive Committee have been aggregated in arriving at the reportable segments of the Group. The Group has four operating and reportable segments under HKFRS 8:

- Mines in production segment ("Mines in production"), comprises an iron ore project in production phase. This segment includes the K&S Project which is located in the Russia Far East Region started commercial production in January 2017.
- Mines in development segment ("Mines in development"), comprises iron ore projects in the exploration and development phase. This segment includes the Garinskoye project, Kostenginskoye project and the Bolshoi Seym project which are all located in the Russia Far East region.
- Engineering segment ("Engineering"), comprises in-house engineering and scientific expertise related to JSC Giproruda, which is located in Russia.
- Other segment ("Other") primarily includes the Group's interests in a joint venture for the production of vanadium pentoxides and related products in the PRC as well as various other projects, which have similar economic characteristic and activities.

The following is an analysis of the Group's revenue and results by separable and reportable segment.

**For the year ended 31 December 2021**

	Mines in production <i>US\$'000</i>	Mines in development <i>US\$'000</i>	Engineering <i>US\$'000</i>	Other <i>US\$'000</i>	Total <i>US\$'000</i>
<b>Revenue</b>					
External sales	371,063	–	216	–	371,279
Segment revenue	371,063	–	216	–	371,279
Site operating expenses and service costs	(218,250)	(64)	(1,025)	(12)	(219,351)
<i>Site operating expenses and service costs include:</i>					
Depreciation and amortisation	(26,740)	–	(98)	–	(26,838)
Segment profit (loss)	<u>152,813</u>	<u>(64)</u>	<u>(809)</u>	<u>(12)</u>	151,928
General administrative expenses					(10,273)
General depreciation					(183)
Other income, gains and losses					10,874
Allowance for financial assets measured at amortised cost					(5)
Financial costs					<u>(18,238)</u>
Profit before taxation					<u>134,103</u>
<b>Other segment information</b>					
Additions to non-current assets:					
Capital expenditure on property, plant and equipment	12,929	–	3	11	12,943
Exploration and evaluation expenditure capitalised	<u>–</u>	<u>261</u>	<u>–</u>	<u>–</u>	<u>261</u>
Segment assets	676,252	21,240	3,752	4,347	705,591
Central cash and cash equivalents					<u>3,555</u>
Consolidated assets					<u>709,146</u>
Segment liabilities	(66,466)	(242)	(216)	(10,948)	(77,872)
Borrowings					(112,604)
Deferred tax liabilities					<u>(2,291)</u>
Consolidated liabilities					<u>(192,767)</u>

**For the year ended 31 December 2020**

	Mines in production US\$'000	Mines in development US\$'000	Engineering US\$'000	Other US\$'000	Total US\$'000
<b>Revenue</b>					
External sales	224,382	–	209	–	224,591
Segment revenue	224,382	–	209	–	224,591
Site operating expenses and service costs	(166,074)	(81)	(1,102)	(1,178)	(168,435)
<i>Site operating expenses and service costs include:</i>					
Depreciation and amortisation	(28,518)	–	(107)	–	(28,625)
Segment profit (loss)	<u>58,308</u>	<u>(81)</u>	<u>(893)</u>	<u>(1,178)</u>	56,156
General administrative expenses					(9,217)
General depreciation					(193)
Reversal of impairment losses					75,832
Other income, gains and losses					5,149
Allowance for financial assets measured at amortised cost					(458)
Financial costs					<u>(25,157)</u>
Profit before taxation					<u>102,112</u>
<b>Other segment information</b>					
Additions to non-current assets:					
Capital expenditure on property, plant and equipment	5,583	–	–	72	5,655
Exploration and evaluation expenditure capitalised	–	288	–	–	288
Right-of-use assets capitalised	<u>823</u>	<u>–</u>	<u>–</u>	<u>343</u>	<u>1,166</u>
Segment assets	648,755	19,392	3,946	7,453	679,546
Central cash and cash equivalents					<u>1,575</u>
Consolidated assets					<u>681,121</u>
Segment liabilities	(60,174)	(603)	(191)	(33,178)	(94,146)
Borrowings					(202,080)
Deferred tax liabilities					<u>(2,609)</u>
Consolidated liabilities					<u>(298,835)</u>



## Non-current assets by location of assets

The Group's non-current assets are substantially located in Russia.

## Information about major customers

Revenue from customers contributing over 10% of the total sales of the Group are as follows:

	2021 US\$'000	2020 US\$'000
Heilongjiang Xianglong International Trading Corporation Limited	237,890	180,816
High Hope Zhongtian Corporation	44,725	–
Posco International Corporation	44,303	–
EVRAZ Group	–	27,450
	<u>          </u>	<u>          </u>

## 6. OPERATING EXPENSES, INCLUDING DEPRECIATION AND AMORTISATION

	2021 US\$'000	2020 US\$'000
Site operating expenses and service costs	219,351	168,435
General administration expenses	10,456	9,410
	<u>          </u>	<u>          </u>
	<b>229,807</b>	<b>177,845</b>

## 7. IMPAIRMENT LOSSES/REVERSAL IMPAIRMENT LOSSES

The Group follows the requirements of HKAS 36 *Impairment of Assets* to consider whether there are impairment indicators and if so, to determine whether the non-financial assets are impaired. At the end of each reporting period, the management assesses whether there is any indication that the impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the management is required to estimate the recoverable amount of the asset which requires significant judgment. In making this judgment, management considers factors including improvements in production volumes, changes in the cash costs of production, available ore reserves, purity of the iron ore concentrate, forecasted iron and ilmenite prices and exchange rates.

With the continued improvements in K&S Project's production and in the spot iron ore price during the year ended 31 December 2020, management revisited the assessment of the recoverable amount of the K&S Project and resulted in a reversal of the impairment charge of US\$75.8 million in the consolidated statement of profit or loss. No further impairment or reversal of impairment have been made in the current year.

The recoverable amount of the K&S Project has been determined based on value-in-use calculations. These calculations require the use of estimates of future cash flows based on projected income and expenses of the business and working capital needs that have taking into consideration the future economic conditions, expected production capacity, ore reserve estimates, iron ore prices and cost of production over the expected life of the mine. Management is also required to choose appropriate discount rates in order to calculate the present values of the cash flows. The real discount rate used was 11.15% (2020: real discount rate 10.65%). Changes in the key assumptions on which the recoverable amounts of the assets are based could significantly affect management's assessment.

As at 31 December 2021, the recoverable amount of the property, plant and equipment and right-of-use assets of the K&S Project is approximately US\$552.5 million (2020: US\$570 million).

## 8. FINANCIAL COSTS

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Interest expense on borrowings	12,229	16,673
Guarantee fee	4,923	6,654
Interest expense on lease liabilities	408	870
Unwinding of discount on environmental obligation and long-term construction costs payable	678	960
	<u>18,238</u>	<u>25,157</u>

## 9. INCOME TAX EXPENSE

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Current tax:		
Russian Corporate tax	15	1,411
Hong Kong Profits tax	249	–
	<u>264</u>	<u>1,411</u>
Underprovision in prior years:		
Hong Kong Profits tax	103	–
Deferred tax (credit) expense	(315)	191
	<u>52</u>	<u>1,602</u>

Russian Corporate tax is calculated at a rate of 20% of the estimated assessable profit for both years.

Based on the approved federal and regional laws in Russia, the K&S Project is considered to be an investment project and is eligible for income tax relief over 10 years starting from 2017. The K&S Project is exempted from Russian Corporate tax for the period from 2017 to 2021 and, will be taxed at a reduced rate of 10% for the following 5 years increasing to 20% thereafter.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

## 10. DIVIDENDS

No dividends were paid, declared or proposed to the owners of the Company during both years ended 31 December 2021 and 2020, nor has any dividend been proposed since the end of the reporting period.

## 11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

### Earnings for the year

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Earnings for the purposes of basic and diluted earnings per ordinary share being profit for the year attributable to owners of the Company	<u>134,069</u>	<u>100,551</u>

### Number of shares

	2021 Number '000	2020 Number '000
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per ordinary share	<u>7,095,736</u>	<u>7,093,386</u>

The computation of weighted average number of shares for the purpose of diluted earnings per share for the years ended 31 December 2021 and 31 December 2020 does not assume the exercise of share options granted by the Group because the exercise price of those options was higher than the average market price for the Company's shares.

## 12. TRADE AND OTHER RECEIVABLES

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Trade receivables	2,415	6,151
Value-added tax recoverable	13,513	9,739
Prepayments to suppliers	8,237	5,007
Amounts due from customers under engineering contracts	15	15
Other receivables	<u>1,781</u>	<u>2,012</u>
	<u>25,961</u>	<u>22,924</u>

Below is an aged analysis of the Group's trade receivables based on invoice date at the end of the reporting period:

	<b>2021</b> <i>US\$'000</i>	2020 <i>US\$'000</i>
Less than one month	<b>2,415</b>	6,109
One month to three months	–	9
Over six months	–	33
	<hr/> <b>2,415</b>	<hr/> 6,151

### 13. TRADE AND OTHER PAYABLES

	<b>2021</b> <i>US\$'000</i>	2020 <i>US\$'000</i>
Trade payables	<b>14,911</b>	7,508
Advances from customers	<b>1,565</b>	78
Interest payables	<b>208</b>	427
Construction cost payables	<b>22,694</b>	22,694
Accruals and other payables	<b>27,815</b>	42,270
	<hr/> <b>67,193</b>	<hr/> 72,977

Below is an aged analysis of the Group's trade creditors based on invoice date:

	<b>2021</b> <i>US\$'000</i>	2020 <i>US\$'000</i>
Less than one month	<b>11,431</b>	7,453
One month to three months	<b>3,469</b>	14
Over three months to six months	<b>5</b>	18
Over six months	<b>6</b>	23
	<hr/> <b>14,911</b>	<hr/> 7,508

## 14. BORROWINGS

	2021 US\$'000	2020 US\$'000
Bank loans		
Gazprombank JSC	112,604	202,045
Other loans		
EPC – Finance LLC	–	35
	<hr/>	<hr/>
Total	<b>112,604</b>	202,080
	<hr/>	<hr/>
Secured	112,604	202,045
Unsecured	–	35
	<hr/>	<hr/>
	<b>112,604</b>	202,080
	<hr/>	<hr/>
Carrying amounts repayable		
Within one year	19,916	20,082
More than one year, but not exceeding two years	20,669	20,538
More than two years, but not exceeding five years	72,019	61,509
More than five years	–	99,951
	<hr/>	<hr/>
Total	<b>112,604</b>	202,080
	<hr/>	<hr/>
Presented as:		
Current liabilities	19,916	20,082
Non-current liabilities	92,688	181,998
	<hr/>	<hr/>
	<b>112,604</b>	202,080
	<hr/>	<hr/>

### Loan from EPC-Finance LLC

On 27 April 2018, LLC Petropavlovsk – Iron Ore, a subsidiary of the Group, obtained an unsecured loan facility of RUB6,000,000 from EPC-Finance LLC, an independent third party. As at 31 December 2020, RUB2,580,000 (equivalent to US\$35,000) had been drawn down. The loan carried interest of 11% per annum and was repaid in full on 10 September 2021.

On 10 September 2021, having repaid the outstanding loan principal and interest in full, the Group terminated the credit facility.

## Bank loan from Gazprombank JSC

On 18 December 2018, the Group entered into two facility agreements for a loan in aggregate of US\$240,000,000 (the “Gazprombank Facility”). The Gazprombank Facility will mature in 2026 and consists of two tranches. The principal under the first tranche amounts to US\$160,000,000 with interest being charged at the London Inter-bank Offer Rate (“LIBOR”) + 5.7% per annum and is repayable in equal quarterly payments during the term of the Gazprombank Facility, the final payment in December 2026. The principal under the second tranche amounts to US\$80,000,000 with interest being charged at LIBOR+7.7% per annum and is repayable in full at the end of the term, in December 2026. Interest charged on the drawn down amounts under the two tranches is payable in quarterly payments during the term of the Gazprombank Facility.

On 19 March 2019, the Group drew down on the Gazprombank Facility to repay the bank loan from ICBC in full of approximately US\$169,637,000 and to finance the K&S Project’s working capital of approximately US\$3,000,000.

On 21 March 2019, the Group further drew down on the Gazprombank Facility to repay the loans from JSC Pokrovskiy mine in full of approximately US\$56,211,000.

The remaining amounts of the Gazprombank Facility were drawn down and used for the following purposes: (i) to finance the K&S Project’s working capital of approximately US\$5,000,000 and (ii) to repay part of the guarantee fee of approximately US\$6,000,000 owed by the Group to Petropavlovsk PLC in respect of their guarantee of the ICBC Facility Arrangement.

As at 31 December 2021 and 31 December 2020, the full credit facility amount of US\$240,000,000 has been fully drawn down.

During the third quarter of 2021, a total of US\$70,000,000 was repaid to Gazprombank JSC as early principal loan repayment of the second tranche amounts to US\$80,000,000.

The Gazprombank Facility is secured by i) a charge over the property, plant and equipment with net book value of US\$50,887,000, ii) 100% equity share of Kapucius Services Limited in LLC KS GOK and iii) a guarantee from Petropavlovsk PLC until 3 December 2021.

On 3 December 2021, Petropavlovsk PLC announced the completion of the disposal of its 31.1% equity interest in the total issued share capital of the Company resulting in the irrevocable release of Petropavlovsk PLC from all loan guarantees given to Gazprombank JSC in respect of the Gazprombank Facility.

The drawn down of the Gazprombank Facility is subject to the following requirements:

- a) LLC KS GOK must maintain an authorised capital not less than RUB9.1 billion;
- b) LLC KS GOK must provide quarterly reporting; and
- c) LLC KS GOK must meet the following financial covenants:
  - i) Net Debt/EBITDA ratio:
    - For the twelve months period ending 30 June 2020 and 31 December 2020 of less than 5.0 times
    - For the twelve months period ending 30 June 2021 and 31 December 2021 of less than 3.5 times and,
    - Starting from the twelve months period ending on 30 June 2022, of less than 3.0 times

Where:

- Net Debt is defined as short-term borrowed funds add long-term borrowed funds add leasing obligations less cash or cash equivalents; and
- EBITDA is defined as profit before tax for the last twelve months add interest expenses for the last twelve months less interest incomes for the last twelve months add depreciation for the last twelve months add adjustments to exclude exchange rate revaluation and other non-monetary items for the last twelve months and add lease payments for the last twelve months.

ii) Debt Service Coverage Ratio (DSCR):

- Starting from the twelve months period ending on 30 June 2020 – not less than 1.2 times

where DSCR is defined as:

- Incoming cash balance add free cash flow of LLC KS GOK to the share capital add cash payments for servicing the principal debt add cash payments for interest payments; divided by
- Cash payments for servicing the principal debt add cash payments for interest payments.

For the twelve months periods ended 30 June 2021 and 31 December 2021, LLC KS GOK has complied with the Net Debt/EBITDA ratio and the DSCR covenants.

As of 31 December 2021, the total borrowings of US\$112,604,000 (31 December 2020: US\$202,045,000) was borne by LLC KS GOK, a wholly owned subsidiary of the Group.

## 15. SHARE CAPITAL

Details of the allotment and issuance of ordinary shares by the Company during the years ended 31 December 2021 and 2020 are as follows:

	<b>Number of shares</b>	<b>Share capital US\$'000</b>
<b>Issued and fully paid</b>		
At 1 January 2020 and 1 January 2021	7,093,386,381	1,285,158
Share options granted in 2015 exercised in May 2021	1,328,000	73
Share options granted in 2017 exercised in September 2021	5,000,000	251
	<hr/>	<hr/>
At 31 December 2021	<u>7,099,714,381</u>	<u>1,285,482</u>

In 2021, the Company issued 1,328,000 and 5,000,000 new shares following the exercising of share options pursuant to the Company's employees' share option scheme 2015 and 2017 with an exercise price of HK\$0.296 and HK\$0.2728 per share respectively. The Company received approximately US\$0.226 million following the issuance of the shares.

## **OTHER INFORMATION**

### **RESOURCES AND RESERVES INFORMATION**

In conjunction with rule 18.14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”), IRC has updated its Resources and Reserves information and further details are set out in IRC’s 2021 annual report.

### **CORPORATE GOVERNANCE**

Throughout the year, the Company has complied with the code provisions set out in the Corporate Governance Code as stated in Appendix 14 to the Listing Rules except that the Independent Non-Executive Director, Mr Chuang-fei LI, was unable to attend the annual general meeting of the Company held on 24 June 2021 as provided for in code provision A.6.7 as he had internet connection issues and was unable to dial in to the meeting.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “Model Code”). The Company has made specific enquiry of all the Directors regarding any non-compliance with the Model Code during the year and they have confirmed their full compliance with the required standard set out in the Model Code.

The Company has also adopted the Model Code as the Code for Securities Transactions by Relevant Employees to regulate dealings in securities of the Company by certain employees of the Company, or any of its subsidiaries and holding companies, who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its securities.

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

### **REMUNERATION OF EXECUTIVE DIRECTOR**

The Board discloses that, following the announcement dated 4 March 2022, the Remuneration Committee has concluded its discussions with Mr Danila Kotlyarov in relation to his remuneration. Under the service contract of Mr Kotlyarov, he is entitled to receive a remuneration of US\$46,833 (approximately HK\$365,300) per month, and may be entitled to receive discretionary bonuses or other benefits as may be decided by the Remuneration Committee and the Board having regard to the Company’s and his performance.

### **NO MATERIAL DIRECT IMPACT FROM RUSSIAN SANCTIONS**

The Company is reviewing and considering the impact, if any, of the UK, EU and US sanctions (the “Sanctions”). As of the date of this announcement, so far as the Board is aware, based on its current assessment and the information currently available to it, the Sanctions have no material direct impact on the Group nor its operations. The Group’s operations and activities in Russia, and elsewhere, are continuing as usual.

The Company will continue to closely monitor sanctions developments and will, if necessary, make a further announcement.

**Shareholders of the Company and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.**



## **PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT**

This results announcement is published on the websites of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and of the Company ([www.ircgroup.com.hk](http://www.ircgroup.com.hk)). The annual report of the Company for the year ended 31 December 2021 containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and published on the above website in due course.

*Note Figures in this announcement may not add up due to rounding. All volume of tonnage used in this announcement, unless specify, refer to wet metric tonne. All dollars refer to United States Dollar unless otherwise stated.*

*Production volumes disclosed in this announcement are determined net of the excessive moisture content within the products, as shipped to the customers. Production rate of K&S is calculated based on an annual production capacity of approximately 3,155 thousand wet metric tonnes.*

By Order of the Board  
**IRC Limited**  
**Yury Makarov**  
*Chief Executive Officer*

Hong Kong, People's Republic of China  
Wednesday, 30 March 2022

*As at the date of this announcement, the Executive Directors of the Company are Mr Yury Makarov and Mr Danila Kotlyarov. The Non-Executive Directors are Mr Peter Hambro and Mr Nikolai Levitskii. The Independent Non-Executive Directors are Mr Daniel Bradshaw, Mr Jonathan Martin Smith, Mr Raymond Kar Tung Woo, Mr Martin Davison and Mr Dmitry Dobryak.*

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